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GENERAL ACCOUNTING OFFICE WASHINGTON DC ENERGY AND M--ETC F/G 11/8
THE OIL SHALE CORPORATION LOAN GUARANTEE CONTRACT. (U)

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UNCLASSIFIED GAO/EMD-81-142

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**UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548**

**ENERGY AND MINERALS
DIVISION**

1 : September 10, 1981

B-204651

The Honorable James J. Blanchard
Chairman, Subcommittee on Economic
Stabilization
Committee on Banking, Finance, and
Urban Affairs
House of Representatives

Dear Mr. Chairman:

Subject: The Oil Shale Corporation Loan Guarantee
Contract.(EMD-81-142)

Accession Form
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P. 1

A large, bold, black stamp. The top half contains the letters 'DTIC' in a serif font, with 'ELECTE' printed below it. To the left is a large, thick letter 'S', and to the right is a large, thick letter 'D'. Below 'DTIC' is the date 'NOV 9 1981'. A small letter 'D' is centered at the bottom.

AD

Your letter dated August 7, 1981, requested that we examine various aspects of the recently signed loan guarantee contract between The Oil Shale Corporation (hereafter referred to as Oil Shale) and the Department of Energy (DOE). (See enc. III.) Specifically, you asked us to determine (1) whether all relevant provisions of the Defense Production Act of 1950, as amended (DPA), which authorizes the loan guarantee, were adhered to, (2) whether the act's mandate for the President to take immediate action to achieve synthetic fuels production was fully implemented, and (3) whether, in light of the findings above, we would recommend approval of this loan guarantee. Enclosures I and II contain the details of our findings.

As you know, on August 6, 1981, DOE signed a \$1.112-billion loan guarantee contract with Oil Shale, a wholly owned subsidiary of TOSCO Corporation. This loan guarantee covers 75 percent of Oil Shale's estimated costs. It allows Oil Shale to participate on a 40-percent basis with Exxon Corporation in the design, construction, and operation of a 43,500-barrel-a-day commercial oil shale plant (commonly referred to as the Colony project). The plant, to be located in Garfield County, Colorado, is estimated to start producing about 24,150 barrels a day by late 1985 and reach full production in late 1987.

In addition to the loan guarantee, DOE and Oil Shale signed a purchase commitment. The basic commitment is for Oil Shale to supply the Department of Defense (DOD) 10,000 barrels a day of fuel for 10 years starting in October 1986. The fuel supplied for military use will be one-fifth jet fuel and four-fifths

DISTRIBUTION STATEMENT A

~~Approved for public release
by the National Security Agency~~

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diesel fuel and will be bought at market prices. The jet and diesel fuels do not necessarily have to be derived from oil shale. In addition, the Government has the right to refuse any purchases, to buy lesser amounts of jet and diesel fuel, or to buy syncrude from the oil shale plant at prices to be negotiated in lieu of purchasing products. The Government is not required to pay for any refused products.

Concerning your first question, we found that the loan guarantee contract is generally consistent with the requirements of DPA. However, it is questionable whether three aspects of DPA were fully adhered to.

The first aspect relates to the requirement that financial assistance be for synthetic fuels to meet national defense needs. Although on June 27, 1981, the Secretary of Defense certified that DOD needs the project's synthetic fuel product for the national defense, we noted that the contract suggests otherwise. The contract calls for DOD to purchase at market prices fuels which are not necessarily derived from the syncrude from Oil Shale, unless DOD exercises an option to purchase syncrude directly.

Another aspect is the policy statement regarding geographic dispersion. This statement was not met. The Union Oil Company project and Colony project, the only two projects to be selected by DOE for negotiation, use shale oil in the same geographic area. According to DOE, they are the first synthetic fuels facilities which can be available to start construction within 1 year in the United States and thus help to achieve early production, another objective of the act. Geographic diversification of the selected projects was among the final selection factors applied by DOE to evaluate the proposals that were submitted. However, DOE states that the geographical dispersement policy is a goal to be sought "when practicable" and is not an absolute requirement for the award of financial assistance under DPA. DOE also notes a practical problem that significant quantities of high-grade shale oil resources are located in a single geographic area and the cost of transportation requires the location of the production facilities to be close to the shale mine.

The final aspect, which is the subject to your second question, regards whether immediate action was taken to achieve synthetic fuels production for defense needs as required by DPA. While immediate actions were taken after enactment of the DPA amendments to put a process in place for implementing the financial assistance program and we did not find any substantial periods of inactivity, questions can be raised whether the 13-month time frame for awarding the contract can be considered "immediate action to achieve production of synthetic fuels to meet national defense needs." However, due to time constraints, we were not able to analyze the advantages and

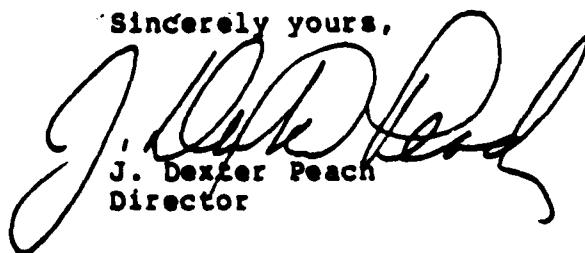
disadvantages of alternative approaches which might have reduced the overall time frame of the award.

Your third question was whether we would recommend approval of the loan guarantee contract based on our work to date reviewing the contract's compliance with DPA. As indicated above, the contract is generally consistent with DPA requirements. Other than that conclusion, however, any recommendation we could make would have to be predicated on our review of the Administration's consideration of other critical factors such as Oil Shale's ability to repay the loan, the status and risk associated with the technology involved, and the degree of protection afforded the Government under the contract.

During the period August 19, 1981, through September 4, 1981, we reviewed the Oil Shale loan guarantee contract in an effort to address the questions asked by examining the contract and DOE files related to it, the Oil Shale/Exxon operating plan, and pertinent legislation. We also obtained information on the contract by interviewing officials at DOE, the United States Synthetic Fuels Corporation, DOD, the Department of the Treasury, and the Office of Management and Budget (OMB). Officials in the State of Colorado, and Garfield County, Colorado, where the project is to be located, were also contacted to obtain their views on the contract. Because of time constraints, we necessarily limited our work to an examination of each major provision of the contract for consistency with the 15 requirements and a policy statement of the DPA amendments. Also, we were not able to analyze the contributions of the various agencies to the contract nor the advantages of alternative approaches which might have reduced the overall time frame for making the award.

In order to meet the requested time frames, we did not obtain official agency comments. In addition, unless you publicly announce its contents earlier, we do not plan further distribution of this report until 30 days from the date of its issuance. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,



J. Dexter Peach
Director

Enclosures - 3

WERE THE REQUIREMENTS OF THE
DEFENSE PRODUCTION ACT OF 1950,

AS AMENDED,

ADHERED TO

FOR THE OIL SHALE CORPORATION CONTRACT?

The loan guarantee contract with The Oil Shale Corporation (Oil Shale) is generally consistent with the requirements of The Defense Production Act of 1950, as amended, (DPA). However, it is questionable whether three aspects of DPA were fully adhered to.

The first relates to the requirement that financial assistance be for synthetic fuels to meet national defense needs. Although on June 27, 1981, the Secretary of Defense certified that the Department of Defense (DOD) needs the project's synthetic fuel product for the national defense, we noted that the contract suggests otherwise. The contract calls for DOD to purchase from Oil Shale fuels at market prices which are not necessarily derived from the syncrude, unless DOD exercises an option to purchase the syncrude directly.

The second aspect regards whether immediate actions were taken to achieve synthetic fuels production for national defense needs. While immediate actions were taken after enactment of the DPA amendments to set a process in place for implementing the program authorized, it is questionable whether the process was as timely as possible. Due to time constraints, we were unable to analyze the potential advantages and disadvantages of alternative approaches which might have reduced the overall time frame for making awards.

The policy statement regarding geographic dispersion of facilities was not met because the two awards under DPA are in the same geographic area. However, the Department of Energy (DOE) stated the facilities are the first to be able to start construction in the next year and a practical problem exists. That is that high-grade oil shale is located in one area and the costs of transportation requires the facility to be close to the shale mine.

The following describes the act's provisions by subsection and discusses the actions taken to meet them.

Subsection 305(a)(1)(A): Has the President taken immediate action to achieve production of synthetic fuels to meet national defense needs?

It is questionable whether this requirement was fully implemented. Questions can be raised whether (1) the 13 month time frame for awarding the contract can be considered "immediate action,"

and (2) DOD purchase of products not necessarily derived from syncrude can be considered "production of synthetic fuels to meet national defense needs."

While immediate actions were taken to put a process in place which would allow the award of assistance under DPA and we did not find any substantial periods of inactivity, questions nonetheless can be raised whether the contract could have been awarded in a shorter time frame. However, due to time constraints, we were not able to analyze the advantages and disadvantages of alternate approaches which might have reduced the overall time frame of the award. Additional information on this question is presented in enclosure II.

The second question concerning DOD purchase of products not necessarily derived from syncrude was addressed by the DPA Task Force Legal Team in a July 15, 1981, memorandum to the DOE Assistant General Counsel for Procurement and Financial Incentives. The legal team determined that such a practice was permitted by DPA because the act's legislative history indicates that the Congress was basically emphasizing how the product would be used, not where it would come from. In addition, the team stated that unless steps are taken to segregate the crude in the refining process, it is impossible to determine whether and to what extent, the refined product contains synthetic crude. Nonetheless, the team acknowledged that it may be argued that DPA requires the purchase only of synthetic fuel.

While the contract provides an option for DOD to purchase the syncrude and this option is consistent with a narrow interpretation of DPA, we note that DOD officials intend to purchase products not necessarily derived from the syncrude.

Subsections 305(a)(1)(B)(i)&(ii): Has the President exercised authority, in consultation with the Secretary of Energy, through DOD and any other Federal department or agency designated by the President?

Yes, the President delegated authority to implement DPA through Executive Order 12242 issued on September 30, 1980. The Secretary of Defense was delegated authority to implement subsections 305(f)(1) and (2), including responsibility for determining defense needs. The Secretary of Energy was delegated authority to implement subsections 305(b)(1)(A)(i) and (ii);(c)(1) (B);(c)(3);(d)(2),(3),(5), and (6);(e); and (g)(2)(C), including responsibility for awarding financial assistance based on defense needs.

Subsection 305(a)(1)(B)(iii): Has the President exercised authority consistent with an orderly transition to the separate authorities established pursuant to the United States Synthetic Fuels Corporation Act of 1980?

Yes, although the results are yet to be seen, it appears that actions were taken to achieve an orderly transition. Synthetic Fuels Corporation (SFC) representatives attended the DOE negotiations with Oil Shale. Both DOE and SFC staff members have stated that the terms and conditions of The Oil Shale Corporation contract are consistent with the statutory requirements for the SFC.

Subsections 305(b)(1)(A)(ii) and 301(a)(1): Is the guarantee in connection with a Government procurement contract deemed to be necessary for the expedited production and delivery of materials for national defense?

Although on June 27, 1981, DOD deemed the contract necessary for the expedited production and delivery of synthetic fuels for the national defense, we believe this section may not be fully consistent with DPA. As stated earlier, a question can be raised as to whether DOD purchase of fuels not derived from syncrude would have any effect on the expedited production and delivery of materials for national defense.

Subsections 305(b)(2)(A), 305(d)(4)(B), 308(b)(1)(A), and 308(b)(2)(A): Is the person receiving assistance participating in a synthetic fuel project in the United States, as defined by the act?

Yes, Oil Shale is a partner in the Colony project and it conforms to the definition of a synthetic fuels project. It will transform oil shale on a commercial scale into a high-quality crude oil which can be used as a substitute for petroleum and is to be located in the United States (Garfield County, Colorado).

Subsections 305(b)(3) and 307: If the amount of loan guarantee exceeds the limitations established in section 301--\$38 million--has the President submitted a synthetic fuel action to both Houses of the Congress on the same day?

Yes, the President submitted a report on the Oil Shale contract to both Houses of the Congress on August 25, 1981. Either House then has 30 days beginning on September 9, 1981, in which to consider the contract.

Subsection 305(d)(1): Was there a solicitation of sealed competitive bids?

Yes, on October 15, 1980, DOE issued a solicitation for proposals for financial assistance under Title I, Part A of the Energy Security Act (announcement no. DE-PS60-81RA50481) which called for submittal of sealed competitive bids. Ten proposals were submitted. On January 12, 1981, DOE announced that none of the proposals were acceptable for award as submitted. However,

DOE selected Oil Shale and Union Oil Company for negotiation considering them the best of the 10 proposals.

Subsection 305(d)(3): Does the agreement to purchase synthetic fuel provide that the President can refuse delivery of the fuel and pay the contractor for the amount by which the contract price exceeds the market price?

Yes, Article VIII of the Purchase Commitment stipulates the Government's right to refuse delivery of product. Section 4.2 of the Purchase Commitment states that the purchase price will be the average product price paid by DOD on a United States-wide basis for JP-4 or DFM, respectively (i.e., the purchase commitment only provides for purchases at market prices). In addition, an option exists for the Government to refuse the products or buy the syncrude at negotiated prices. This option is also consistent with the requirement.

Subsection 305(d)(6): Did the President take into account the socioeconomic impacts on affected communities?

Yes, Section 5.8.10 of the Commitment to Guarantee Obligations states, in part, that operations are to be conducted so as to minimize adverse socioeconomic impacts. DOE staff stated that they had discussions with State and local officials concerning the Oil Shale project during negotiations. We talked with officials from Garfield County and Colorado State agencies. These officials have reviewed the Oil Shale socioeconomic mitigation program, and are satisfied with the actions that are planned to be taken.

Subsection 305(f)(1): Has the President determined that the synthetic fuel is needed to meet national defense needs and that it is not anticipated that such synthetic fuel will be resold by the Federal Government?

On June 27, 1981, the Secretary of Defense signed the "Defense Department Determination of Need for Synthetic Fuel." The document certifies that DOD needs the project's synthetic fuel product to meet national defense needs and that DOD does not anticipate that any of the synthetic fuel acquired to meet the national defense will be resold. However, as stated earlier, it is questionable whether this requirement will be fully implemented in view of DOD's intent to purchase fuels not necessarily derived from syncrude.

Subsection 305(g)(1): Does the contract, and any amendment or other modification, specify in dollars the maximum liability of the Federal Government?

Yes, Section 1.2.1 of the Commitment to Guarantee Obligations sets the maximum liability of the Federal Government to be \$1,232,900,000. This includes \$1,112,400,000 for the loan guarantee and up to \$120,500,000 to pay termination costs and interest in the event of a default by Oil Shale. There is no provision for Government payment if it exercises its option to refuse delivery of products.

Subsection 305(g)(4): Has the Director, Office of Management and Budget, certified that the necessary appropriations have been made for the purpose of the contract and are available?

Yes, on August 6, 1981, the Director, Office of Management and Budget, certified that the appropriations have been made for the purpose of the contract and that the necessary funds for the guarantee and termination costs are available.

Subsection 305(i): Are all laborers and mechanics employed for the construction, repair, or alteration of the project paid in accordance with the Davis-Bacon Act?

Yes, Section 5.8.8 of the Commitment to Guarantee Obligations commits the project to pay prevailing wages pursuant to the Davis-Bacon Act.

Subsection 305(j)(2): Has it been ensured that the project is not considered to be a Federal project for purposes of the application or assignment of water rights?

Yes, DOE stated that no provision exists in the contract that would allow the project to be considered to be a Federal project for purposes of the application or assignment of water rights.

Subsection 305(k)(1): Does it ensure that the President has not yet determined that SFC is established and fully operational?

Yes, the President has not determined that the SFC is fully operational.

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In addition, DPA sets forth a declaration of policy in section 2 as follows:

"In order to insure productive capacity in the event of such an attack on the United States, it is the policy of the Congress to encourage the geographical dispersal of the industrial facilities of the United States in the interest of the national defense, and to discourage the concentration of such productive facilities within

limited geographical areas which are vulnerable to attack by an enemy of the United States. In the construction of any Government-owned industrial facilities, on the condition of any Government financial assistance for the construction, expansion, or improvement of any industrial facilities, and in the procurement of goods and services, under this or any other act, each department and agency of the Executive Branch shall apply, * * * when practicable and consistent with existing law and the desirability for maintaining a sound economy, the principle of the geographical dispersal of such facilities in the interest of national defense * * *."

The Union Oil Company project and Colony project, the only two projects to be selected by DOE for negotiation, use shale oil in the same geographic area. According to DOE, they are the first synthetic fuels facilities which can be available to start construction within 1 year in the United States and thus help to achieve early production, another objective of the act. Geographic diversification of the selected projects was among the final selection factors applied by DOE to evaluate the proposals that were submitted. However, DOE states that the geographical dispersement policy is a goal to be sought "when practicable" and is not an absolute requirement for the award of financial assistance under DPA. DOE also notes a practical problem that significant quantities of high-grade shale oil resources are located in a single geographic area and the cost of transportation requires the location of the production facilities to be close to the shale mine.

DID THE PRESIDENT TAKE
IMMEDIATE ACTION TO
ACHIEVE SYNTHETIC FUEL PRODUCTION?

Section 305(a)(i)(A) of the Defense Production Act of 1950, as amended (DPA), states, " * * * In order to encourage and expedite the development of synthetic fuel for use for national defense purposes, the President, utilizing the provisions of the Act * * *, and any other applicable provision of law, shall take immediate action to achieve production of synthetic fuel to meet national defense needs" (emphasis added). The language of the act is supported by the report of the Committee of the Conference for Title I, Part A of the Energy Security Act:

"The purpose of Title I is to accelerate the development of a synthetic fuel industry in the United States. To accomplish this objective, this title is divided into two parts. Part A, which amends the Defense Production Act of 1950 (DPA), provides authority for a fast start interim program utilizing existing Federal departments and agencies to expedite the development and production of synthetic fuels to meet national defense needs. The President of the United States is directed to put this program into effect immediately upon enactment. The conferees believe that no time should be lost during the period before the United States Synthetic Fuels Corporation established in Part B becomes fully operational."

More than 13 months passed from the enactment of the Energy Security Act on June 30, 1980, to the signing of the loan guarantee contract by The Oil Shale Corporation (Oil Shale) and the Department of Energy (DOE) on August 6, 1981. The second question the Subcommittee on Economic Stabilization asked is: whether the President fully implemented the statutory requirement to take immediate action, in regard to achieving synthetic fuel production to meet national defense needs. While the record shows that immediate actions were taken after enactment of the DPA amendments to put a process in place for implementing the program, questions can be raised whether the process was as timely as possible. The President initiated action to implement DPA in early July 1980. While we did not find any substantial periods of inactivity, DOE was required to consult with three other Federal agencies and The United States Synthetic Fuels Corporation (SFC) in the award process. According to the head of the DPA Task Force, this contributed to the time required to award the contract. However, due to time constraints, we were not able to analyze the contributions of these agencies to the contract or the advantages and disadvantages of alternative approaches which might have reduced the overall time frame for making the award.

AGENCY RESPONSIBILITIES

Subsection 305(a)(1)(B) of DPA directs the President to act in consultation with the Secretary of Energy and through the Department of Defense (DOD) and any other Federal department or agency designated by the President. The report of the Committee of the Conference stated, "The Department of Defense, in carrying out the consultation required above, should provide the Secretary of Energy as rapidly as possible with its total requirements for mobility synthetic fuels and other alternative fuels by specification and quantity and the rate at which they are required for use in lieu of conventional fuels." On July 3, 1980, a draft Executive Order was circulated which clarified and divided responsibilities for implementing the fast start interim program between DOE and DOD.

DOE was given lead responsibility for soliciting proposals for financial assistance and for negotiating contracts under the DPA. The Secretary of Defense was delegated responsibility for (1) determining the quantity and quality of synthetic fuels needed to meet national defense needs and (2) ensuring that the synthetic fuels needs do not include fuels which he anticipates will be resold by the Government. In addition, Executive Order 12242 states that the terms and conditions of purchase agreement contracts negotiated under the DPA are subject to the concurrence of the Secretary of Defense.

Subsection 305(a)(1)(B)(iii) requires that the DPA authority be exercised consistent with an orderly transition to the separate authorities of SFC. Fiscal year 1980 Supplemental Appropriations and Rescission Act (P.L. 96-304) provides a transfer mechanism from DOE to SFC upon the President's determination that SFC is established and fully operational and upon approval by a majority of SFC's Board of Directors. To assist the transfer, Executive Order 12242 states that no award under DPA shall be made that would preclude projects from being transferred to SFC. Because of these authorities, SFC staff was invited to participate in the negotiations of the two DPA contracts. As discussed later, at one point in early January 1981, SFC assumed lead responsibility for negotiating the contracts. This authority was returned to DOE in February 1981.

Subsection 305(g)(4) requires the Director of the Office of Management and Budget (OMB) to certify that the necessary appropriations have been made for the purpose of each contract and are available. Executive Order 12242 requires the Secretary of Energy to obtain the concurrence of the Secretary of Treasury with respect to the timing, interest rate, and substantial terms and conditions of a loan guarantee under DPA.

Thus, four Federal agencies and SFC were drawn into soliciting, negotiating, and/or approving the Oil Shale contract. Three--DOE, DOD, and SFC--participated in negotiations. In addition, discussions were held with State and local officials of Colorado.

THE AWARD SCHEDULE

In March 1980, the Committee of the Conference had resolved all outstanding differences for Title I, Part A of the Energy Security Act. The administration was aware of this, and some first steps were made to establish the fast start interim program. Before the award process began, DOE and DOD spent several weeks resolving which would have lead responsibility and what role each would play. The draft Executive Order, dated July 3, 1980, defined the responsibilities of each. However, the final order was not issued until September 30, 1980.

Table 1 breaks down the award process by major events. DOE's project selection process took 6 months once the draft Executive Order was circulated. On August 4, 1980, DOD provided DOE a list of its synthetic fuels requirements. This list was incorporated into the draft solicitation for proposals, which was released on August 25, and the final solicitation, which was released on October 15. The closing date for submission of proposals for financial assistance was November 14, 1980. Ten proposals were submitted. On January 12, 1981, DOE announced that none of the proposals were acceptable for award as submitted. However, DOE selected Oil Shale and Union Oil Company proposals for negotiation and The Tennessee Synfuels Corporation proposal to determine project readiness.

Upon announcing the selections for negotiation, the Secretary of Energy and the SFC Chairman announced that the SFC would have lead responsibility for negotiating the Oil Shale and Union contracts. One consideration for this decision was that SFC could have been declared fully operational in the middle of negotiations; and consequently, the DPA funds would be transferred to SFC, in accordance with P.L. 96-304.

On January 20, 1981, President Reagan was inaugurated. The DPA negotiating team was instructed by the new administration that work could proceed, but that they could not conduct any serious negotiations. The team proceeded with its fact finding for the three projects, which included frequent meetings with the applicants. The DPA team analyzed the expected rate of return for each project in light of economic and project uncertainties, such as varying energy prices, delays, and cost overruns. They also reviewed whether and under what circumstance synthetic crude production could be substituted for or blended with petroleum products. The DPA team examined the financial standing of Oil Shale and its parent, TOSCO Corporation, to determine their ability to finance 25 percent of Oil Shale's share of the Colony project costs (\$370 million). According to the head of the DPA negotiating team, the

restriction against conducting negotiations during the first month or the Reagan administration did not result in a significant loss of time because the activities which were performed would have to have been done anyway.

In mid-February the Reagan administration reversed the earlier DOE-SFC agreement for negotiating the contracts by putting DOE in charge. The DPA Task Force was set up within DOE on February 26, 1981, and negotiations with Oil Shale began March 4, 1981. The DPA Task Force insisted on nine fundamental changes to the Oil Shale contract proposal and numerous smaller changes. The major changes were worked out within 3 months. On June 1, the DPA Task Force accepted draft contracts for the guarantee commitment, TOSCO funds agreement, trust indenture, debt servicing agreement, technology agreement, and project monitoring agreement.

The DPA Task Force circulated the draft contracts within DOE and sent copies to DOD, OMB, Treasury, and SFC. They briefed the Under Secretary of Energy on June 19 and the Secretary of Energy on June 30. Other Federal agency officials were also briefed in June. DOD initially concurred with the contract's terms and conditions on June 11, 1981. The Secretary of Defense also provided on June 27, 1981, a determination that the synthetic fuel produced under the DPA financial assistance is needed to meet national defense needs and that DOE does not anticipate that the synthetic fuel will be resold. On July 9, the DPA Task Force submitted its report to the Under Secretary of Energy on the Oil Shale contract. A final wrap-up session to approve all of the contract terms was held on July 16 by the DPA Task Force and Oil Shale.

The Oil Shale contract was ready to be signed at this point. However, two documents were outstanding--a letter from the Secretary of Defense concurring with the terms and conditions of the purchase agreement and a certification from the Director of OMB that the necessary appropriations have been made for the purpose of the contract and are available. DOD submitted its final concurrence to the contract on July 31, 1981.

The Director of OMB did not meet DOE's requests for certification until the President's Cabinet Council convened on August 5 and President Reagan concurred with the Secretary of Energy's decision to sign the Oil Shale contract. There is no indication in the DPA or in the legislative history that the OMB certification is to be anything more than procedural. The Director of OMB is not asked to review or concur in the terms of the contract. P.L. 96-304, enacted on July 8, 1980, appropriated \$3 billion for financial assistance for synthetic fuels projects under DPA. The Union and Oil Shale contracts are the first and only contracts that have been negotiated

ENCLOSURE II

ENCLOSURE II

under the DPA authority. The extent of Federal Government assistance under the Union contract is \$400 million and under the Oil Shale contract is \$1.2 billion. On August 6, the Director of OMB provided his certification, and the Oil Shale contract was signed.

Table 1

CHRONOLOGY OF EVENTS LEADING TO
AWARD OF THE OIL SHALE CORPORATION CONTRACT

P.L. 96-294 Enacted	June 30, 1980
Draft Executive Order	July 3, 1980
DOD Provided DOE With Its Synthetic Fuels Needs	August 4, 1980
Draft Solicitation	August 25, 1980
Final Solicitation	October 15, 1980
Submission of Proposals	November 14, 1980
DOE Selected Union Oil and Oil Shale for Negotiation and SFC given lead responsibility	January 12, 1981
DPA Task Force Established to Negotiate Agreements	February 26, 1981
Negotiations began with Oil Shale Corporation	March 4, 1981
DPA Task Force Accepts Draft Agreement for the Documents	June 1, 1981
Circulation of Draft within DOE, DOD, Treasury, OMB, SFC	June, July 1981
Briefings: DOE, Other Federal Agencies, SFC	June 1981
Under Secretary of Energy Secretary of Energy	June 19, 1981 June 30, 1981
Report to the Under Secretary by DPA Task Force	July 9, 1981
Final Wrap-up of Contract Terms with Oil Shale Corporation	July 16, 1981
Selection for Award	August 5, 1981
Availability of Funds Certified by OMB	August 6, 1981
Contracts signed by The Oil Shale Corporation and DOE	August 6, 1981
Transmission of the Synthetic Fuel Action to the Congress	August 25, 1981

ENCLOSURE III

JAMES J. BLANCHARD, MICH., CHAIRMAN
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U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON ECONOMIC STABILIZATION
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-SEVENTH CONGRESS
212B Rayburn House Office Building
WASHINGTON, D.C. 20515

ENCLOSURE III

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RONALD W. WILSON
STAFF DIRECTOR

(202) 225-7145

August 7, 1981

Honorable Milton J. Socolar
Acting Comptroller General
of the United States
General Accounting Office
441 G Street, N. W.
Washington, D. C. 20548

Dear Mr. Socolar:

As you know, on August 6, 1981, the Department of Energy signed a loan guarantee agreement with The Oil Shale Co. (TOSCO) covering the development of a large commercial oil shale project in Colorado to produce synthetic fuel for defense purposes.

Under sections 305 and 307 of the Defense Production Act of 1950, as amended, loan guarantees of this magnitude are referred to Congress for a lay-over period of 30 days, during which action may be taken to approve or disapprove the guarantee. If no action is taken, the guarantee goes into effect automatically.

It is our understanding that the TOSCO guarantee is likely to be referred to the House Committee on Banking, Finance and Urban Affairs and, in turn, to the Subcommittee on Economic Stabilization.

To assist us in our oversight function, we would greatly appreciate an expeditious review by the General Accounting Office to determine:

- 1.) Whether all relevant provisions of the Defense Production Act were adhered to by the various Federal departments and agencies involved.
- 2.) Whether the congressional mandate in the Act directing the President to take immediate action to achieve production of synthetic fuel to meet national defense needs was fully implemented in terms of this particular loan guarantee.
- 3.) Whether, in light of the findings above, the General Accounting Office would recommend approval of this loan guarantee.

ENCLOSURE III

ENCLOSURE III

Honorable Milton J. Socolar

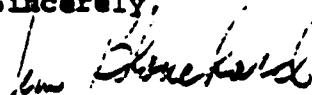
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August 7, 1981

Because of the time constraints in consideration of this matter by the Committee and Subcommittee, it is essential your conclusions be transmitted to us by no later than September 9, 1981.

Thank you for your timely attention to this matter.

Sincerely,



JAMES J. BLANCHARD
Chairman